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THE IMPACT OF THE
EQUALIZATION OF INDUSTRIAL
OPPORTUNITY PROGRAM

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THE IMPACT OF THE EQUALIZATION OF INDUSTRIAL OPPORTUNITY PROGRAM

prepared for:

[Ontario]

Ontario Development Corporation

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INTRODUCTION AND SUMMARY

A. BACKGROUND

In November, 1967 the Ontario Development Corporation began the Equalization of Industrial Opportunity (E.I.O.) program. Under this program the corporation grants forgivable loans providing capital to companies who are starting or expanding operations in designated areas of the province. In some cases you may grant term loans to companies who require additional financing.

The objectives in placing the forgivable loans are:

- To provide equalization of opportunity for all Ontario municipalities in order to attract new industry.
- To provide for an expansion of industry and employment particularly in areas of slow growth in Ontario.
- To provide opportunities for gainful employment for our young people in the smaller centres of population.
- To provide a wider base of industrial assessment for Ontario's smaller municipalities.

You planned to follow your program as first set out for an 18 month period before revising it. This was Phase I. It ended on June 30th of this year. At that time you retained Stevenson & Kellogg, Ltd. to provide you with an objective assessment of the impact you had achieved during Phase I.

B. OUR TERMS OF REFERENCE

We agreed to conduct a survey of the companies involved in your programs. Our attention centred on three questions:

- What were the initial and subsequent direct economic effects of decisions by ODC clients to locate or expand in designated areas of Ontario?
- Are there secondary effects of these location decisions?
- What role did ODC play in the initial decision of the companies?

C. A SUMMARY OF OUR FINDINGS

During Phase I the Corporation authorized E.I.O. forgivable loans worth \$24.9 million to 151 companies.

We contacted these companies and discussed with them their present position and the position they project for their company in 2 years. Here is the impact that ODC has had on slow-growth areas where people and other resources have been under-employed:

Economic Impact

The ODC projects can be measured in a number of ways. We have summarized a few as projected for 2 years hence when all projects authorized under Phase I will be complete:

- Investment - Capital investment in the ODC projects will total \$111 million -- 4 1/2 times the total grants.
- Jobs - 7,200 new jobs will be created. They will mean an annual payroll of \$38.8 million.
- Sales - In 2 years the ODC projects will show annual sales worth \$217 million -- 8.7 times the total grants.
- Ontario's Industrial Base - The projects expand Ontario's industrial base in two ways -- introducing processes new to Ontario and producing goods never before produced in Ontario. In 2 years new processes will result in sales totalling \$84 million annually. At the same time, products never before produced in Ontario will sell for \$110 million.

Of course there is some overlap between the two groups -- new products using new processes. But the important facts are that the technological base has been expanded and with it the scope of Ontario manufacturing.

- Canada's Trade Balance - Imports of capital equipment will total \$22 million. However, in 2 years the projects will achieve an annual net improvement in Canada's trade balance of \$82 million, 3.3 times the ODC grants.

The Corporation's Role

ODC has played an important role in decisions to proceed with projects. Because of your assistance;

- 46% of the projects were made possible. They could not have proceeded without ODC's assistance.
- 28% were able to increase the size of their project by adding the grant to their capital funds.
- 9% were induced to locate in a designated area instead of elsewhere.
- 5% located in a designated area and also increased the size of their investment.

88%

The corporation participated in 88% of the projects in one of these positive roles.

In the balance of 12% of the projects, there was at least some doubt as to whether the forgivable loan was a determining factor in the company's decision to proceed.

Secondary Effects

It's still too early to assess all the secondary effects of the E.I.O. program, since not all the Phase I projects are yet completed. However, some of the effects revealed by the survey are:

- Developing Skills Among Local People. Most of the new jobs created are "semi-skilled". Virtually all local people hired are unskilled. The company trains them in the skills required for the job. The people at least become familiar with an industrial environment and at best they acquire highly marketable skills.
- The Price of Land. About 1/3 of the companies attribute the increase in the local price of land to their project or to the fact that ODC has designated that area as eligible for grants.

The Financial Impact - Tax Revenues Will Pay Back Grants

The projects create tax revenues for the Ontario Government. The revenues which are uniquely attributable to the ODC grants have a discounted present value about equal to the amount of the grants.

II

OUR APPROACH TO THE STUDY

We decided to contact all of the 151 companies who had been granted E.I.O. money during Phase I of the program. Because we were interested in secondary effects in the community, we visited companies that are further along with their projects and interviewed senior executives. We sent questionnaires to the balance of the companies asking them for basic information about their history and prospects.

The data collected covers 62% of the economic activity. It includes most of the projects that are operational. From this base, we have made reasonable estimates of the E.I.O. program's impact.

Appendix A contains a copy of the questionnaire. Appendix B contains a copy of the questions we sent to companies we intended to interview.

III

WHAT THE PROJECTS HAVE ACHIEVED

A. CONSTRUCTION PUMPS MONEY INTO THE AREA

A community begins to feel the effects of the grant long before the money is paid out. Construction creates jobs for local people. Materials are purchased from local suppliers. The economy of the area receives a real boost as soon as construction begins. But the grant is paid only when the project is complete and operating.

The capital value of the E.I.O. projects totals \$111 million and \$34 million will be paid to local companies.

We did not assess the number of employment opportunities created during construction. But we estimate that about \$40 million will be paid in wages to construction workers. A large share of the \$40 million will be paid to local people. The amount paid to local workers by companies from outside the area will increase the \$34 million quoted above. Part of the wages paid to people from outside the area will be spent near the construction site.

B. PROJECTS PLAN FOR A BRIGHT FUTURE

After we talked with a number of companies, we decided to use the companies' estimates for 1971 as a basis for assessing the ultimate impact of the projects.

Sales

In two years time, sales will be 8.7 times the grants made to the projects. The value of sales will be \$217 million.

As might be expected, the ODC projects are not located in their main market areas:

<u>Sales</u>	<u>% of Sales</u>	<u>Value</u>
In the area	6.3%	\$13.6 million
Balance of Ontario	37.0%	\$80.2 million
Balance of Canada	30.3%	\$65.8 million
Exports	26.4%	\$57.4 million

We believe this pattern will change as the area around the project continues to grow, and also as companies establish complementary plants on the area.

Jobs

The projects will create many new employment opportunities for local people in the designated areas of the province. The result will be \$38.8 million in annual payroll for the 7,200 new jobs.

Who will fill the jobs? The distribution will be:

	<u>People from the area</u>	<u>People new to the area</u>	<u>Total</u>
White collar	510	550	1,060
Blue collar	5,820	320	6,140
	6,330	870	7,200
<u>% of total</u>		87.9%	12.1%

The 870 people who will move to the project sites will stimulate residential construction. Many of the executives we interviewed mentioned that housing is a current problem. In many areas, construction of new housing units is the only possible means of providing accommodation for the new people.

Much of the \$38.8 million total earnings can be attributed to the ODC projects. Many jobs will be filled by people new to the labour force -- housewives, young people who would have had no opportunity for employment but for the ODC project. Many people

were previously earning very little -- farm labourers, marginal farmers, domestic help and so on. Clearly, the total earnings of the people hired by the ODC projects was much less than the \$38.8 million being paid them now. Also the welfare payments made to some of the people will stop -- a significant improvement in the Ontario Government's position.

Tax Revenues

Tax revenues to the Ontario Government will at least pay back the grants in full.

- Increased industrial assessment in the areas will mean \$3.7 million additional municipal property tax each year.
- Personal income taxes will amount to about \$6 million a year. While all of this cannot be attributed to the projects, a large share can, as explained in the previous section.
- Corporate income tax will total \$14.2 million in two years. It will increase as the projects sort out their "start-up" problems and as the local people become more accustomed to an industrial environment.

The long term implications of this tax revenue are very interesting:

<u>Tax</u>	<u>Total Tax</u>	<u>Ontario Government Share of the Tax</u>
Personal Income Tax	\$6 million	\$1.7 million
Corporate Income Tax	\$14.2 million	\$3.5 million
		<u><u>\$5.2 million</u></u>

But the \$5.2 million is an ANNUAL revenue resulting in part from the grants given by ODC. We have conservatively attributed 55% of the tax revenue to the ODC grant and calculated its present value at 9% interest over 20 years. The present value is \$26.3 million. This means that the grants will be fully requited by discounted income tax revenues alone.

Canada's Balance of Trade

The trade balance will be significantly affected by ODC's projects. Imported capital equipment cost \$22.4 million -- a "one-time" cost of equipping the projects.

In two years, the annual trade balance will be affected as follows:

Add:	Export sales	\$57.5 million
	Import substitution	\$38.5 million
Less:	Imported supplies	<u>\$13.7 million</u>
	Leaves: net trade balance	<u><u>\$82.3 million</u></u>

The \$13.7 million imported supplies may well decrease in time. Canadian companies will respond to the increased home market for various supplies and materials.

Broader Industrial Base

The ODC projects have broadened the industrial base of Ontario and of Canada. By stimulating capital investment you encourage companies to manufacture products in Canada for the first time. You also encourage companies to exploit new processes that diversify industry in Ontario.

Among the projects, 54 (or 36%), produce items in Ontario that have never before been produced here. The grants involved are 37% of the total. Sales from these projects total \$110 million, or 51% of the total.

Many projects incorporate processes new to Ontario. Grants totalling \$10.3 (41%) million have been approved for 49 companies (32%) exploiting new processes. They will show annual sales of \$84 million.

ODC PARTICIPATION WAS VITALA. THE CORPORATION INFLUENCES PROJECTS IN A VARIETY OF WAYS1. Grants Make Projects Possible

Often a company cannot find sufficient capital or has not sufficient confidence in its own prospects to proceed with a project. The grant, or the corporation's help in assessing the project, has been instrumental in the decision to proceed: 46% of the companies consider that ODC's grant was the determining factor. The grants involved total 43% of all grant money authorized up to June 30, 1969.

2. Companies Locate in a Designated Area

ODC assistance in finding a suitable site¹ has been cited by many companies. The financial incentive of a grant has convinced them: 12% of the companies (who received 9% of the money) report that the E.I.O. loan influenced them to locate in a designated area.

Few companies regret moving to designated areas. Some have had their problems but on balance, they judge they "would do it again".

3. Projects are Expanded

ODC assistance makes possible in one year what might otherwise have taken five years. A project is expanded or accelerated because the grant is added to the capital funds available from other sources. The result is a larger project than would otherwise have been possible at this time.

¹ Respondents referred here to assistance by the Plant Location section of the Industrial Development Branch of the Department of Trade and Development.

4. A Few Grants Were of Doubtful Effect

In the balance of 12% of the projects, there was at least some doubt as to whether the forgivable loan was a determining factor in the company's decision to proceed.

B. THE LARGEST GROUP COULD NOT PROCEED WITHOUT A GRANT

Here are the ways in which the ODC influenced its projects. In tabular form, the results are:

<u>Influence</u>	<u>% of Grant Money</u>	<u>% of Companies</u>
1. Make possible	43%	46%
2. Increase size of project	25%	28%
3. Locate in a designated area	12%	9%
4. Increase <u>size</u> and locate in a designated area	9%	5%
5. Doubtful effect	11%	12%

The largest group -- 46% of the projects receiving 43% of the money -- would not have proceeded without the ODC grant. The grant made the project possible.

C. GRANTS ARE GOING TO THE RIGHT COMPANIES

The corporation has in our opinion been effective in achieving desired results by granting money to projects. Our survey shows that 89% of the grant money has furthered ODC's aims. This means that at least nine out of ten ODC dollars have achieved the desired results in the designated areas of the province -- getting industries to there, improving the taxation base of smaller communities and creating job opportunities for local people.

PROJECTS HAVE SECONDARY EFFECTS IN THE COMMUNITY

When we interviewed officials of companies we asked about secondary effects of the project in the community.

A. LOCAL PEOPLE DEVELOP SKILLS

Most of the people hired for the new jobs created by the projects are unskilled. Often they have never before worked for an industrial company. The company hiring them trains them in the basic skills required for the job -- skills that often will be useful to another employer.

B. THE PRICE OF LAND HAS TENDED TO INCREASE

Many people we interviewed noted an increase in the price of land; 36% of them attributed a good part of the increase to their project or to the fact that the area had been designated for grants.

C. LOCAL LABOUR RATES HAVE TENDED TO RISE

Some 25% of the companies believe they, or ODC, have caused an increase in local labour rates. Some expect to be paying "Toronto rates" in the near future.

D. SOCIAL EFFECTS ARE NOT YET EVIDENT

In general, no noticeable change in the quality of life in the smaller centres has resulted from the ODC projects. Only occasionally did someone mention things like a shopping centre, a new doctor, new blood in community, service groups and so on. Of course, these changes take time. They will not follow at once from approval of a project. But

we believe over the longer term, such social effects may be among the most important results of the E.I.O. program.

E. STIMULUS TO GROWTH

We did not find evidence of self-sustaining growth that had been sparked by the ODC program. But many of the projects are just starting, so the issue is by no means closed. We were interested to find that 26% of the people we interviewed felt that their area had a bright economic future. On the other hand, 61% felt the area would require further assistance, such as E.I.O. grants, to stimulate continued expansion. They believe that if the grants were withdrawn, growth would stop.

APPENDICES

APPENDIX A

The questionnaire sent to companies not interviewed.

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ONTARIO DEVELOPMENT CORPORATION
QUESTIONNAIRE

Our objective is to assess the impact of the Ontario Development Corporation loan. All questions refer to the total expansion or development financed in part by the funds from O.D.C. We know you will not have exact answers to some questions. In these cases, please state your best estimate.

All returns are confidential. We will report only summary results to the Corporation.

YOUR COMPANY'S NAME: _____

CONSTRUCTION:

What was the total capital cost for your project -- final costs or your latest estimates?

\$ _____

The value of imported equipment?

\$ _____

EMPLOYMENT:

The number of jobs created by the project?

Now

In 2 Years

The annual payroll for those jobs?

Have you encountered any labour problems that would be unusual in a larger centre?

PRODUCTION:

Your annual volume of sales?

Now

In 2 Years

Value of sales resulting from this project?

Distribution in two years' time of sales resulting from this project:

0-20% 20-40% 40-60% 60-80% 80-100%

In the area

Balance of Ontario

Balance of Canada

Exports

Description of your Product:

Not previously produced in Ontario?

Yes

No

Uses processes new to Ontario?

Yes

No

Value of import substitution in two years' time?

\$

GENERAL:

How important was the O.D.C. assistance to your project?

APPENDIX B

The questions sent to respondents prior to interviews.

STEVENSON & KELLOGG, LTD.

management consultants

QUESTIONS FOR THE ONTARIO DEVELOPMENT CORPORATION STUDY

Our objective is to assess the impact of the Ontario Development Corporation loan. All questions refer to the total expansion or development financed in part by the funds from O. D. C. We know that you will not have exact answer to some of our questions. In these cases, we would appreciate your best estimate.

Our questions will touch on a number of areas:

CONSTRUCTION

- The total capital cost of your project -- final costs or your latest estimate ?
- The value of imported equipment ?
- How was your capital expenditure distributed ?

Locally (say within a 50 mile radius)(%)
In the balance of Ontario (%)
Elsewhere in Canada (%)
To foreign companies (%)

EMPLOYMENT

- Number of jobs created by this project now and in two years ?
- The annual payroll for those jobs ?
- Income tax deducted on behalf of these people ?
- Source of labour ?

From the area - white collar
- blue collar
New to the area - white collar
- blue collar

- Your comments on the local labour supply ?

PRODUCTION

- Annual value of sales ?
- Value of input material ?
- Company taxes each year ?
- Annual municipal taxes ?
- Distribution of sales (%) ?

In the area
Balance of Ontario
Balance of Canada
Exports

- Sources of input material (%) ?

In the area
Balance of Ontario
Balance of Canada
Imports

- Description of product

Not previously produced in Ontario ?
Uses new process for Ontario ?
Value of import substitution (\$) ?
Other interesting aspects ?

GENERAL

- How important was the O. D. C. assistance to your project ?
- What do you think of the economic future of the area ?
- What special effects have you had on the community ?

Price of land
Local labour rates
Development of skills among local people
Improved, expanded Municipal services
Any others

